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# Denial outperforms apology in repairing organizational trust despite strong evidence of guilt

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## Abstract

Previous work in the areas of organizational trust repair and crisis communication has provided conflicting answers to the question of whether denial can be more effective than apology in repairing stakeholder trust in a company following an integrity-based violation. This article reports the results of an experiment designed to (i) test the effects of these two strategies on individuals' trust in a company accused of corruption, and (ii) determine whether and how evidence of the company's guilt influences stakeholder reactions to its trust repair message. The results demonstrate that, when evidence against the company is weak, trust is restored more successfully with a denial than an apology. Contrary to our hypothesis, denial was found to outperform apology in repairing perceptions of the company's integrity and benevolence even in the face of strong evidence, and it was as effective as apology in restoring perceived ability and trusting intentions. These results provide empirical evidence for the 'paradoxical effect' that an open and honest attitude can, in the short term, be more detrimental to organizations than a defensive strategy. More research on the factors that determine the credibility and persuasiveness of corporate denial is called for.

Keywords: Organizational trust repair strategies, crisis communication, strength of evidence, corporate denial, credibility, persuasion, manipulation, trust and culture

## 1 Introduction

Trust is a valuable relational asset for organizations, and an important precondition for their legitimacy and long-term viability (e.g. Gillespie et al., 2014; Ingenhoff and Sommer, 2010; Pirson and Malhotra, 2011). But trust is also a fragile commodity; it takes a long time to build, and just moments to destroy (Slovic, 1993). The past few years have witnessed a number of examples of organizational trust failures – from the Enron and WorldCom scandals in the early 2000s to the more recent JP Morgan, BP,

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and Volkswagen controversies. These and other events have contributed to creating a climate of widespread distrust of business (e.g. Adams et al., 2010; Bachmann et al., 2015; Kramer and Lewicki, 2010), which may hinder organizational success as well as socio-economic development.

This situation has prompted a recent upsurge of scholarly interest in organizational trust repair. Researchers working in this area seek to better understand how trust in organizations can be restored after it has been violated, and to determine the most appropriate strategies for companies to rebuild stakeholders' trust in them following a crisis (Bachmann et al., 2015; Eberl et al., 2015; Gillespie and Dietz, 2009; Gillespie et al., 2014; Janowicz-Panjaitan and Krishnan, 2009; Kramer and Lewicki, 2010; Pfarrer et al., 2008; Poppo and Schepker, 2010). One issue that has attracted considerable attention and some controversy in the literature concerns the effects and appropriateness of two basic response strategies that are commonly used by organizations in situations where trust is at stake, namely apology and denial (Gillespie et al., 2014: 400).

Studies adopting a normative approach emphasize the importance of openness and transparency in the process of organizational trust repair, and caution against the risks of a defensive response to alleged wrongdoing (Gillespie and Dietz, 2009; Gillespie et al., 2014; Pfarrer et al., 2008). According to this perspective, accepting responsibility and apologizing for the violation are necessary steps towards organizational trust repair. Conversely, denial can be used as a means of obfuscating the truth and may therefore inhibit this process. This view is supported by research in the neighboring field of crisis communication, where, as noted by Coombs and Holladay (2008: 253), apology has generally been regarded as the best strategy for restoring a company's image.

However, experimental studies on interpersonal trust repair have consistently found that, in certain situations, apologizing leads to a greater loss of trust than denying (Ferrin et al., 2007; Kim et al., 2013, 2004). While apology has been shown to be more effective than denial in the case of competence-related violations, where the alleged breach of trust is attributed to the trust breaker's lack of adequate skills, denial has been found to be comparatively more effective in response to integrity-based violations, that is, when the trusted person is accused of having abused the other party's trust deliberately for personal gain. In such cases, people seem to be inclined to give the accused party the benefit of the doubt.

The apparent discrepancy between the findings from crisis communication and interpersonal trust repair studies may, at least in part, be due to a factor that has not previously been considered, but that may have a significant influence on individuals' reaction to organizational messages in situations where trust is at stake, namely the perceived strength of the evidence against the company (Gillespie et al., 2014: 400). In this study, experimental methods are used to investigate (i) whether denial is more effective than apology in repairing organizational trust following an alleged integrity-based violation, and (ii) whether and how evidence of the company's guilt influences stakeholder reactions to its trust repair message. The study focuses on short-term stakeholder reactions in the immediate aftermath of a crisis event, when the level of uncertainty and public scrutiny of a company's actions and communications is highest (Dardis and Haigh,

2009: 101).

By tackling the questions above, this study seeks to contribute to the current debate regarding optimal organizational trust repair strategies and, ultimately, to advance our understanding of the process of trust repair in the context of company–stakeholder relationships. Empirically testing the hypothesis of whether denial is more persuasive than apology following alleged integrity-based violations is particularly important, not only for settling the above-mentioned academic dispute, but also for a critical evaluation of currently widespread crisis communication practices. Since denial is among the response strategies that are most frequently used by companies (Kim et al., 2009), and given the fact that it can serve as a tool for obfuscating the truth and evading responsibility, it is crucial to assess its communicative effectiveness. By considering the role played by the evidence of the company’s guilt, we address an as yet unexplored variable that may be important in determining how trust in organizations is best repaired after it has been violated.

## 2 Theoretical background

### 2.1 Organizational trust

Following Rousseau et al. (1998: 395), trust can be defined as “a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behavior of another”. While trust always originates from individuals, the target of trust may be either another person or an organization (Zaheer et al., 1998). In this study we focus on stakeholder trust in organizations. In this context, then, individual stakeholders are the trustors, who make themselves vulnerable to the actions of an organization based on positive expectations (Pirson and Malhotra, 2011).

Trust involves risk and vulnerability as our ability to infer other people’s intentions and anticipate their actions is limited, and trusted parties may abuse their position of trust for personal gain (Mayer et al., 1995). When we trust others, we do so in the belief that they will act in a way that is “beneficial or at least not detrimental to us” (Gambetta, 1988: 4). This belief, in turn, hinges upon our assessment of the other party’s trustworthiness (Mayer et al., 1995). Trust and trustworthiness are two related yet distinct notions. Trustworthiness is a crucial antecedent of trust; it underpins positive expectations towards the trusted party and provides a basis for trusting them (Mayer et al., 1995).

Based on the above distinction, we can divide the concept of trust into two fundamental, interrelated components: (i) trusting intentions and (ii) trusting beliefs (McKnight et al., 1998). Trusting intentions concern trustors’ willingness to make themselves vulnerable to the actions of another person or organization in a situation involving risk. Trusting beliefs, on the other hand, are trustors’ perceptions of the other party’s trustworthiness. Trusting beliefs inform and influence individuals’ trusting intentions. Thus, the more trustworthy people or companies appear to be, the more willing the trustor will be to trust them, and engage in risk-taking behavior.

Trusting beliefs are formed on the basis of the trustor's assessment of the other party's trustworthiness against three main criteria: (i) ability, (ii) benevolence, and (iii) integrity (Mayer et al., 1995). In the context of company-stakeholder relations, ability<sup>1</sup> concerns the collective competencies that enable an organization to meet its goals and responsibilities in an effective and reliable manner. Benevolence refers to the organization's care and genuine concern for the well-being of its stakeholders. Integrity relates to its adherence to socially accepted moral principles, such as honesty, fairness, and sincerity (Gillespie and Dietz, 2009: 128). These three aspects of trustworthiness are interrelated but separable, and may vary independently of each other (Mayer et al., 1995). Their relative importance depends on the context and the relationship (Mayer and Davis, 1999); in fact, different stakeholder groups have been shown to prioritize different components of trustworthiness based on the type of vulnerabilities they face (Pirson and Malhotra, 2011).

## 2.2 Trust violation and repair

Trust is a dynamic construct that changes over time as social relationships evolve (e.g. Cook, 2001; Mayer et al., 1995; Saunders et al., 2010). The outcomes of risk-taking in a relationship influence the trustor's impressions of the other party's trustworthiness and, accordingly, the amount of trust s/he has in the trustee (Mayer et al., 1995). Thus, trust is strengthened when risk-taking acts lead to the expected results. It is jeopardized when the trusted party's behavior violates the trustor's positive expectations (Lewicki, 2006: 107). Notably, not only manifest acts, but also simple allegations may be sufficient to undermine trust (e.g. Bell and Loftus, 1989; Kim et al., 2004; Kim and Harmon, 2014).

Different acts of trust violation may generate different attributions. Following Kim et al. (2004), a distinction can be made between competence-based violations, when the trust breaker's behavior calls his or her ability into question, and of integrity-based violations, when the breach of trust is attributed to the lack of moral integrity. An accounting error, for example, may damage perceptions of the accountant's ability if attributed to his or her inadequate knowledge of tax codes, or it may harm perceptions of his or her integrity if understood as an intentional attempt to deceive others (Kim et al., 2004). But the trustee's actions may also undermine perceptions of his or her benevolence when interpreted as evidence of disregard for the trustor's wellbeing and interests. This applies to both interpersonal and company-stakeholder relationships. Fuoli and Paradis (2014), for instance, illustrate how, following the Gulf of Mexico oil spill of 2010, the benevolence of the oil company BP was damaged, among other things, by the *faux pas* made by the former CEO, Tony Hayward. As the authors explain, Tony Hayward's infamous 'I want my life back' comment made in an interview in the aftermath of the spill suggested that the CEO and, by extension, BP placed other priorities ahead of solving the crisis and supporting the people affected by it (Fuoli and Paradis, 2014: 57). Clearly, trust violations may push the trustor to question more than one aspect of the other party's trustworthiness. Trust-breaking acts, in particular in the case of complex corporate crises, may carry broad implications, and may cast doubts on a company's ability, benevolence, and integrity.

In order to repair trust following a perceived violation, the trust breaker will need to take remedial actions aimed at improving the trusting beliefs and intentions of the trustor (Kim et al., 2004: 105). Communication is a fundamental means through which trust repair attempts are carried out. It plays a particularly important role in organizational trust repair, given the relative unobservability of companies' behavior (Fuoli and Paradis, 2014). Apology and denial are two of the most basic and common verbal trust repair strategies (Kim et al., 2004). In the next section, we review prior studies that have investigated the effects of these strategies in situations where trust is at stake.

### **2.3 Apology and denial as trust repair strategies**

One critical decision that organizations need to make when publicly responding to a crisis is whether to apologize or deny responsibility for it (Poppo and Schepker, 2010: 135). Following Kim et al. (2004), apology is defined here as a statement whereby the accused party acknowledges responsibility for a violation, and expresses regret for it. Conversely, denial is defined as a statement by means of which the accused party explicitly declares the allegation to be untrue and thus disclaims responsibility for it (Kim et al., 2004).<sup>2</sup> Apology and denial lie at opposite ends of a continuum ranging from accommodative to defensive response strategies that companies can use to address crisis situations (Coombs, 1998). Strategies at the accommodative end of the continuum seek to build a positive organizational image by addressing victim concerns, whereas those at the defensive end aim to protect the company's image by denying or shifting blame (Coombs and Schmidt, 2000).

Previous work in both the domains of organizational trust repair and crisis communication has emphasized the positive role of apology in improving stakeholders' impressions of a company following a crisis (e.g. Coombs, 2007; Fuchs-Burnett, 2002; Gillespie and Dietz, 2009; Gillespie et al., 2014; Pace et al., 2010; Pfarrer et al., 2008). An apology signals redemption (Ferrin et al., 2007); it suggests that the company has learned its lesson and is committed to avoid similar violations in the future (Gillespie and Dietz, 2009; Gillespie et al., 2014). Further, an apology demonstrates the company's integrity and concern for those affected by the crisis (Gillespie and Dietz, 2009; Gillespie et al., 2014). It can thus help to soothe people's anger and influence their opinions in a more positive direction (Coombs and Holladay, 2005; Coombs, 2007). In contrast, a denial indicates that there is no need to rectify the organization's behavior (Ferrin et al., 2007; Kim et al., 2004; Poppo and Schepker, 2010). This can generate uncertainty about the company's future conduct, particularly when its innocence has not been clearly established (Kim et al., 2004). A denial may even lead the crisis to escalate as it leaves important questions unanswered and frustrates people's need to understand what happened (Gillespie et al., 2014). In addition, unlike apology, a denial ignores the needs of the victims and signals no compassion for them (Coombs, 1999: 129). For these reasons, the denial strategy is only prescribed for responding to rumors and unfair challenges (Coombs, 2007).

This emphasis on the positive effects of apology appears to be at odds with empirical findings on trust repair in interpersonal relations. Recent studies have repeatedly demonstrated that the effectiveness of apology and denial in repairing trust between in-

dividuals is contingent upon the type of violation the trust breaker is accused of having committed (Ferrin et al., 2007; Kim et al., 2013, 2004). Apology has been shown to be more effective than denial in cases of competence-related violations; conversely, denial has been found to be comparatively more effective for violations concerning matters of integrity (Ferrin et al., 2007; Kim et al., 2013, 2004). This effect can be explained by the fact that individuals tend to put more weight on positive information about competence than on negative information about competence, but conversely, they tend to put more weight on negative information about integrity than on positive information about integrity (Madon et al., 1997; Martijn et al., 1992; Kim et al., 2004; see also Snyder and Stukas, 1999 for a review). Thus, one single poor performance is typically not taken as a sign of incompetence, but one single act of dishonesty is generally considered as a reliable indication of low integrity (Kim et al., 2004: 106; Reeder and Brewer, 1979).

Whether the effects observed by Kim and colleagues in the context of dyadic interpersonal relationships apply to company–stakeholder relationships in the same way remains an open question, however. Previous studies on organizational trust repair that have addressed the issue of how companies should respond to trust failures are either purely theoretical (Gillespie and Dietz, 2009; Pfarrer et al., 2008; Poppo and Schepker, 2010), or qualitative and based on a single case study (Gillespie et al., 2014). In crisis communication research, there have been a number of experimental studies investigating the comparative effectiveness of different crisis response strategies, including apology and denial. Except for two studies that found no significant differences between these two strategies (Coombs and Schmidt, 2000; Lyon and Cameron, 1998), previous experiments show that apology outperforms denial in repairing a company’s image in the wake of a crisis (Bradford and Garrett, 1995; Dardis and Haigh, 2009; Decker, 2012; Lee, 2005; Lyon and Cameron, 2004; McDonald et al., 2010). However, these studies mainly focus on corporate image or reputation, rather than trust. Although related, trust is conceptually distinct from both image and reputation.<sup>3</sup> Crucially, trust involves both a perceptual dimension and an intentional dimension. Image and reputation are important perceptual antecedents of trust, in the sense that if a company has a positive image or reputation, stakeholders will be more inclined to engage in risk-taking behavior and make themselves vulnerable to the organizations’ actions (van Der Merwe and Puth, 2014). However, image and reputation lack the intentional dimension. From a conceptual point of view, then, they are closer to trustworthiness than to trust. Where trust is considered in previous work, fairly simplistic models that are not based on the work on organizational trust reviewed are used. The scales employed by both Lee (2005) and Decker (2012) do not account for individuals’ trusting intentions; they only measure certain aspects of perceived trustworthiness. The same consideration applies to the trust scale developed by Hon and Grunig (1999), which is widely used in public relations studies. Therefore, the extent to which the findings of these studies may be generalized to the case of organizational trust repair is unclear. Also, no explicit distinction is made between ability- and integrity-based violations. In fact, most of the studies referenced above are based on accidental crisis scenarios, rather than instances of deliberate corporate wrongdoing. If we equate accidental crises with competence-based violations,

then the fact that apology outperforms denial is actually compatible with Kim and colleagues' findings. Moreover, organizational responses are operationalized in inconsistent ways, and often combine multiple verbal strategies, such as for instance denial and blame shifting in Dardis and Haigh (2009). These inconsistencies make it hard to isolate and compare the effects of apology and denial across different studies, because it is unclear whether the observed effects should be attributed to the apology or denial as such, to the accompanying strategies, or to the specific combination of responses used.

In addition to the above, in the scenarios used in previous crisis communication experiments, the accused company generally has limited room for deniability, given that some physical evidence indicating that it actually was responsible for the crisis is available. Lee (2005) and McDonald et al. (2010), for example, are both based on a plane crash scenario. In a situation of this kind, it is not possible for the airline company to deny that the accident occurred, and it would arguably be difficult for them to disclaim responsibility altogether. Other studies focus on product-recall crises, where room for deniability is limited by the fact that some of the products from the accused company have been found to be faulty (e.g. Bradford and Garrett, 1995; Dardis and Haigh, 2009; Decker, 2012). This clash between corporate response and available evidence may limit the effectiveness of denial. This hypothesis is further explored in the next section.

## **2.4 Strength of evidence**

When a company admits to and apologizes for wrongdoing, no doubts are left regarding its guilt. The apology itself counts as conclusive evidence of culpability, and may even be used in lawsuits against the organization (Myers, 2016). But when a company denies, the onus is on the public to decide whether it can actually be trusted or not. Thus, the effectiveness of a denial hinges upon people's assessment of its credibility. Although several factors may affect individuals' judgments of the credibility of the denial, including the company's prior reputation and crisis history (cf. Coombs, 2007), we propose that a crucial one is the strength of the evidence on which the accusation is based.

Previous work has paid very little attention to the role evidence plays in moderating the effects of corporate crisis response strategies. As discussed above, many of previous experimental studies in the domain of crisis communication are based on scenarios where some physical evidence of the company's responsibility exists (e.g. Dardis and Haigh, 2009; Decker, 2012; Lee, 2005; McDonald et al., 2010). The potential implications of this fact, however, are not addressed. Similarly, in an experiment on image repair in interpersonal relationships conducted by Benoit and Drew (1997), apology was found to outperform denial, but the participants were informed in the scenario description that the other party did indeed commit the act s/he was accused of. In a situation like that, where evidence of guilt is simply unequivocal, the accused person has virtually no room for denying the accusations, and any attempt to do so will arguably be perceived as insincere or inappropriate. Benoit and Drew (1997), however, do not comment on this issue.

In a theoretical contribution, Coombs (1995) touches upon the topic of evidence. The author's treatment of evidence, however, is limited in two main respects. First,



it does not address the issue of how perceived veracity of evidence affects individuals' reactions to companies' crisis response messages. It only provides normative guidelines for how companies should handle different crisis situations. Second, the author's conceptualization of evidence as either true or false, with ambiguous evidence restricted to cases of *faux pas*, does not seem to adequately reflect the reality of most crisis situations. In fact, it is hardly ever the case that there are no doubts about a company's innocence or guilt. More often than not, evidence is scant and conflicting. Evidence gradually emerges as the crisis unfolds. It usually takes a long time before the truth about what happened is revealed, and responsible parties are conclusively identified. Accordingly, rather than treating evidence as either true or false, it seems more reasonable to consider it as a continuous variable ranging from weak to strong. This is the approach taken in the present study.

Griffin et al. (1991) provide some empirically grounded insights into how strength of evidence might affect people's perceptions of a company's trustworthiness following alleged wrongdoing. The authors do not consider strength of evidence as such, but investigate the closely related aspect of source credibility, that is, the degree to which the message source is considered competent and truthful by the receiver (Sternthal et al., 1978). Griffin et al. (1991) show that, when the negative publicity is attributed to a low credibility source, individuals exhibit more positive attitudes towards the company accused of being responsible for the poisoning than when the news is attributed to a highly credible source. In light of these findings and based on the assumption that evidence supplied by a highly credible source will be perceived as more compelling than that presented by a less credible source, it seems reasonable to hypothesize that strong evidence will result in a lower degree of trust in the accused company compared to weak evidence.

But how does strength of evidence affect individuals' reaction to the accused company's trust repair message? Is denial equally (in)effective in case of weak and strong evidence? And what about apology? Bradford and Garrett (1995) hypothesize that denial is the most effective strategy for restoring a company's image when no evidence of its guilt is available, whereas apology is the optimal response in cases where there is unequivocal evidence of the company's blameworthiness. This hypothesis is based on the idea that stakeholders will give the organization the benefit of the doubt, if the accusing party or the accusations are not credible, but will reject the company's denial as unconvincing and deceitful, if there is undisputable evidence against it (Bradford and Garrett, 1995: 879). The results of the experiment, however, only partly confirm the authors' hypothesis. Where no evidence of the company's responsibility was given, apology was found to be the best strategy, even though denial had a mildly positive effect on perceptions of the company's image as well. When irrefutable evidence against the company was provided, denial was found to be damaging to the company's image, although excuses yielded even lower ratings.

Retrospectively, however, the reason why Bradford and Garrett's (1995) original hypothesis was not fully confirmed might be explained by the fact that the scenario considered is a product-safety incident. Given the unintentional nature of the act, the

company's failure may primarily have been attributed to its lack of competence, rather than integrity. If that is the case, apology can indeed be expected to be more effective than denial, as argued above. But the comparatively greater effectiveness of apology across the experimental conditions may also have been due to the fact that the company's denial, as presented in the stimulus material, was considerably more concise and less sympathetic than its apology. The apology text also included additional information that may have swayed the participants' opinion, such as the fact that the company pledged to pay the medical bills for the drug related illnesses, or that it was under the impression that all hospitals were informed of the need to test the patient's blood before administering the drug (Bradford and Garrett, 1995: 889–890). In sum, while insightful, the results of Bradford and Garrett (1995) study do not provide a conclusive answer to the question of how strength of evidence affects the effectiveness of apology and denial in repairing organizational trust after alleged integrity-based violations.

Although it is not considered as an experimental variable, evidence is an implicit component of the experimental design used by Kim et al. (2004). The authors examine the comparative effects of apology and denial on interpersonal trust both in the absence of reliable evidence of the accused party's guilt, in which case the allegations are presented as based on hearsay, and in the face of irrefutable evidence of their culpability, ratified in an official ruling by a government agency. As detailed above, Kim et al. (2004) found that, when no evidence of guilt was available, denial was more effective than apology following integrity-related violations. However, when the accused party denied a violation, but his or her guilt was subsequently proven, the resulting level of trust was lower than if s/he had initially admitted culpability. That is, when the trust breaker's denial was contradicted by subsequent evidence, the positive effects of this strategy were nullified.

In Kim et al.'s (2004) study, the trust breaker's response and the moment when his or her guilt or innocence is revealed are sequential in time. First, participants were exposed to the trust breaker's response in a situation where evidence of guilt was still unclear. Only afterwards were they informed about whether the accused person actually committed the offense or not. In addition, the truth about what happened was presented as indisputable and conclusive as the accused party's guilt or innocence was determined by a legally binding verdict. The participants were thus able to easily compare the trust breaker's 'version of the story' with the 'real story', and evaluate whether the accused party's initial response was sincere or not. This situation is different from the one under investigation here, where individuals evaluate the company's response at the same time as they assess the strength of the evidence against it, and where evidence is presented as either weak or strong, rather than weak or conclusive. This type of scenario seems to more accurately reflect the reality of most organizational crises, especially in the early phases.

Despite this difference, Kim et al.'s (2004) results provide a solid basis for making predictions about the effects of strength of evidence on individuals' reactions to a company's apology and denial. In line with Kim et al. (2004), we expect denial to be comparatively more effective than apology in repairing organizational trust after an

alleged integrity-based violation only when weak evidence of the company’s guilt is available. Conversely, when there is strong evidence of the organization’s blameworthiness, we expect apology to be the more effective strategy on the grounds that a denial in the face of strong evidence of guilt would be perceived as insincere, and as a deliberate attempt at deception. These predictions, which are coherent with Bradford and Garrett’s (1995) initial hypotheses, are formally presented below.

## 2.5 General distrust of corporations

In addition to the type of violation committed, the organization’s response, and the strength of the evidence against it, yet another important factor that can be expected to influence individuals’ trust in a company after alleged wrongdoing is their overall degree of trust in corporations as a collective. As noted at the outset, public trust in business has been shaken by a long series of widely publicized cases of corporate wrongdoing. These events have contributed to an increase in public distrust of corporations (Adams et al., 2010). Distrust in business is spread through institutionalized narratives that tend to be overwhelmingly negative and to reinforce stereotypes of corporations as “amoral entities that will do almost anything to increase profits – including lie, cheat and steal if need be” (Harris and Wicks, 2010: 152). These beliefs may play an important part in shaping people’s impressions of individual organizations (Adams et al., 2010). This is particularly likely in situations where limited information about the company is available. As McKnight et al. (1998) observe, where there is limited mutual knowledge and history of interaction, parties in a trust relationship tend to rely more heavily on cognitive cues arising from reputations and stereotypes. Therefore, it is important that individual biases against corporations in general are controlled for when measuring people’s trust in a specific organization. Accordingly, in this study we treat distrust in corporations as a control variable. Details about how this factor was operationalized and measured are provided below.

## 3 Hypotheses

As the above discussion has shown, previous work has provided conflicting answers to the question of whether denial is more effective than apology in repairing organizational trust after integrity-based violations. Organizational trust and crisis communication studies have generally found apology to be a comparatively more effective and appropriate communicative strategy following a corporate crisis. However, these studies mainly focus on corporate image or reputation, they do not properly account for the nature of the trust violation committed, i.e. ability-based *versus* integrity-based, and they are mostly based on scenarios where the accused company has limited room for deniability. Studies on interpersonal trust repair, on the other hand, have consistently shown that denial outperforms apology in repairing trust following integrity-based violations.

Given the robustness of the findings reported in interpersonal trust repair studies, we use them as the basis for the development of our hypotheses. We hypothesize that denial

will be more effective than apology in repairing trust in a company following integrity-based violations. However, as discussed above, we expect the strength of the evidence against the company to play a key role in moderating the effects of these two strategies. Thus, we expect the effectiveness of denial *vis-à-vis* apology to vary depending on the degree of strength of the evidence of the company's guilt, so that denial will be more effective in repairing organizational trust only in situations where there is weak evidence of the company's guilt. But, in cases where there is strong evidence, apology will be comparatively more effective because a denial in the face of strong evidence of guilt will be perceived as intentionally deceitful. Based on this reasoning, we formulate our hypotheses as follows.

Hypothesis 1: When evidence against the company is weak, individuals will display more trust in the accused company if the company responds with a denial rather than an apology.

Hypothesis 2: When evidence against the company is strong, individuals will display more trust in the accused company if the company responds with an apology rather than a denial.

These two hypotheses were tested in a scenario-based experiment, which is described in the following sections.

## 4 Method

To test the hypotheses described above, and determine the effects of trust repair strategy and strength of evidence on organizational trust following an alleged integrity-based violation, a scenario-based experiment was conducted. The experiment involved a 2x2 between-subjects design with company response (apology vs. denial) and strength of evidence (weak vs. strong) as factors. Participants were randomly assigned to one of the four experimental conditions.

### 4.1 Participants

Participants were 284 undergraduate and graduate students enrolled in a variety of business management, organizational behavior, and economics courses at Lund University in Sweden. Responses of two participants were excluded due to incompleteness, leaving a total of 282 valid questionnaires. Fifty-four percent of the final sample was female, and age ranged from 18 to 52 ( $M = 22.94$ ,  $SD = 3.72$ ). The vast majority of the participants (78%) were of Swedish nationality, and the remaining 22% represented other nationalities. To encourage and reward participation, respondents were offered the opportunity to enter a lottery for five movie tickets.

### 4.2 Procedure

The questionnaire was administered during class. Participants were given a paper-and-pencil experimental packet that included instructions, stimulus materials, dependent

measures, manipulation check items, and demographic questions. They were informed in the instructions that participation in the study was voluntary, that the questionnaire was anonymous, and that by responding to the survey they were giving their consent for their data to be used for the purposes of the study. Completing the questionnaire took approximately 20 minutes, after which the participants were debriefed and thanked for their participation.

### **4.3 Experimental task**

The task the participants were asked to carry out comprised four steps. First, they read a short text providing basic background information about Renergi, a fictitious Swedish multinational energy corporation headquartered in Stockholm. The background text presented Renergi as a large and successful company, whose business had grown substantially over the past fifteen years. The text was the same across all experimental conditions. Second, participants read a fabricated newspaper article about a case of suspected international corruption involving Renergi. The article reported on the allegations and included the manipulation of strength of evidence. The news story was loosely modeled after the corruption scandal that struck Siemens AG in the early 2000s (for an overview of the case, see Eberl et al., 2015). In short, the article reported that several Renergi executives were suspected of having bribed public officials to secure lucrative contracts abroad. Allegedly, the executives accused of paying bribes were following company instructions rather than acting on their own initiative. Third, participants read a second newspaper article, dated two days after the first one, published by the same newspaper. This included both the manipulation of company response as well as the manipulation of strength of evidence. After reading the background text and both articles, the participants completed a questionnaire designed to measure their trust in Renergi. Details about the measures used are provided below.

An imaginary company name was used in order to prevent previous knowledge of, and attitudes towards, the company from affecting the participants' responses in idiosyncratic ways. Similarly, the background text aimed to provide every participant with standardized information about the company, so as to control for their individual biases. A Swedish company was chosen in order to make the news story as relevant as possible to the participants in the study. A corruption scenario was chosen because it represents a prototypical case of integrity-based violation (Eberl et al., 2015), where the company deliberately breaks shared social norms (encapsulated in laws) for its own benefit. The articles were formatted to resemble real newspaper articles in order to make them seem plausible and natural.

### **4.4 Manipulations**

Two versions of the first newspaper article and four of the second one were created to generate the stimuli for the four experimental conditions of this study. The bulk of each version of the two articles was identical, except for the parts containing the manipulations. All versions of the articles are available as Supplementary Materials.

Strength of evidence was manipulated by varying parts of the text of both articles as well as the image accompanying the first article. In the weak evidence version of the first article, the allegations against Renergi were presented as unproven, given that official investigations were still underway, and that all alleged recipients of the bribes had denied receiving money from the company. The article featured a generic picture of a solar power plant built by Renergi in India. In the strong evidence version of the first article, the accusations against Renergi were presented as substantiated by hidden-camera footage showing an Indian government official accepting a bribe from a Renergi executive. The text was accompanied by a still frame from the hidden-camera footage. The second newspaper article also included a sentence that framed the evidence against the company as either weak or strong.

Company response was manipulated by changing both the headline and the body of the text of the second article. The article reported Renergi's official statement about the allegations of corruption. The company either admitted to and apologized for bribing foreign officials, or denied the accusations completely.

Prior to the experiment, the stimulus materials were iteratively tested on informants and progressively developed to ensure that the manipulations were as effective as possible, and that the articles were perceived as realistic and easy to read.

#### 4.5 Measures

Trust in Renergi was measured using several multi-item scales adapted from previous studies on organizational trust and interpersonal trust repair. The scales assessed different aspects of trust, based on the model outlined above. Thus, two core components of this construct were measured: trusting intentions and trusting beliefs. Trusting beliefs encompassed perceived ability, benevolence, and integrity. Trusting intentions were measured using three items adapted from the 'willingness to risk' scale used by Kim et al. (2004). Perceived ability was measured using two items adapted from Kim et al. (2004) and one item adapted from Xie and Peng (2009). Perceived benevolence was measured using two items adapted from Mayer and Davis (1999) and one item adapted from Rawlins (2008). Perceived integrity was assessed with three items adapted from Kim et al. (2004). In order to control for individual biases, the questionnaire also measured participants' attitudes towards corporations in general. To this end, four items adapted from the corporate distrust scale developed by Adams et al. (2010) were used. Those items, from the original twelve-item scale, that appeared to be the most relevant to the scenario considered here were selected. The questionnaire also included three manipulation checks, tapping into participants' perceptions of the strength of the evidence, of the company's confession of guilt, and of the plausibility of the articles. The item for perceived strength of evidence was presented immediately after the first newspaper article in order to prevent the company response from affecting participants' assessment. As noted above, the company's apology might have been taken as *prima facie* evidence of guilt. The other manipulation checks were presented after the second newspaper article. Participants were instructed not to read the articles again before answering the comprehension check questions. Participants responded to all items included in the

Table 1. Variable means, standard deviations, reliabilities, and intercorrelations.

| Variable                     | M    | SD   | -   | 1    | 2    | 3    | 4     |
|------------------------------|------|------|-----|------|------|------|-------|
| (1) Perceived ability        | 3.67 | 1.20 | .83 |      |      |      |       |
| (2) Perceived benevolence    | 3.01 | 1.10 | .88 | .29* |      |      |       |
| (3) Perceived integrity      | 2.91 | 1.27 | .88 | .44* | .56* |      |       |
| (4) Trusting intentions      | 2.66 | 1.05 | .67 | .24* | .24* | .39* |       |
| (5) Distrust in corporations | 3.99 | 1.40 | .88 | .11  | -.06 | -.02 | -.15* |

\*  $p < .05$

questionnaire on 7-point Likert scales with endpoints ranging from “strongly disagree” (1) to “strongly agree” (7). All the scales and items used are reported in the Appendix.

## 5 Results

### 5.1 Reliabilities

As shown in Table 1, the reliability coefficients for all the multi-item scales used in the study were above acceptable levels, based on DeVellis (2012: 109). All but one of the scores exceeded the .80 threshold, indicating very good reliability. Even though the alpha coefficient for the ‘trusting intentions’ scale was lower than that for the other scales, it was comparable to the value reported in Kim et al. (2004: 109) for the equivalent scale, i.e.  $\alpha = .69$ , and higher than that reported in Kim et al. (2006: 57), i.e.  $\alpha = .53$ . It was also higher than the coefficient reported in Mayer and Davis (1999: 128) for the ‘trust’ scale from which Kim et al. (2004) ‘willingness to risk’ scale was originally derived, i.e.  $\alpha = .60$ .

### 5.2 Convergent and discriminant validity

We conducted a factor analysis on the questionnaire items, presupposing five factors. Table 2 shows correlations (loadings, after varimax rotation) between the 16 items and the five factors. Sizeable correlations (larger than .40) are marked in boldface. They show that each of the five item sets strongly correlates with one, and only one, of the factors. Each of the five factors accounted for at least 10% of the total variance in the scores and jointly they accounted for 65%. A significant lack of fit ( $p < .05$ ) of the five-factor model suggested the addition of a sixth factor. However, this addition did not substantially change the pattern shown in Table 2. Moreover, the sixth factor accounted for less than five percent of the variance in the scores, from which we conclude that the five-factor model was satisfactory for the present purposes.

Table 2. Item loadings for the five-factor model. Loadings larger than .40 are in bold. Factors 1 to 5 correspond to the dimensions ‘distrust in corporations’, ‘perceived benevolence’, ‘perceived ability’, ‘perceived integrity’ and ‘trusting intentions’, respectively.

| Item | Factor1     | Factor2     | Factor3     | Factor4     | Factor5     |
|------|-------------|-------------|-------------|-------------|-------------|
| q5   | .032        | .038        | <b>.765</b> | .096        | .016        |
| q6   | .107        | .172        | <b>.878</b> | .144        | .072        |
| q7   | .069        | .154        | <b>.624</b> | .219        | .252        |
| q8   | .029        | <b>.768</b> | .137        | .210        | .101        |
| q9   | -.090       | <b>.868</b> | .067        | .188        | .053        |
| q10  | -.047       | <b>.757</b> | .150        | .265        | .127        |
| q11  | .026        | .309        | .322        | <b>.556</b> | .264        |
| q12  | -.036       | .272        | .136        | <b>.836</b> | .170        |
| q13  | .013        | .327        | .214        | <b>.800</b> | .189        |
| q14  | -.004       | .085        | .032        | .139        | <b>.816</b> |
| q15  | -.108       | .041        | .108        | .065        | <b>.667</b> |
| q16  | -.119       | .116        | .100        | .214        | <b>.403</b> |
| q17  | <b>.767</b> | -.081       | .068        | -.035       | .020        |
| q18  | <b>.782</b> | -.061       | .046        | -.006       | -.132       |
| q19  | <b>.815</b> | .029        | -.014       | .048        | -.082       |
| q20  | <b>.829</b> | .021        | .093        | -.032       | -.063       |

### 5.3 Manipulation checks

Manipulation checks revealed that the experimental manipulations were successful. As expected, respondents in the apology condition gave significantly higher agreement ratings to the statement ‘Renergi has admitted to having bribed public officials to win contracts abroad’ than participants in the denial condition ( $t = 25.004, df = 263.96, p < .001$ ). Further, participants in the strong evidence condition rated evidence against the company as significantly stronger than participants in the weak evidence condition ( $t = 11.242, df = 278.35, p < .001$ ). On average, participants judged the articles to be fairly realistic ( $M = 4.69, SD = 1.38$ ).

### 5.4 Descriptive statistics

Table 1 reports overall mean values, reliabilities, and inter-correlations of the dependent variables used in the study. Variable means, standard deviations, and number of observations by condition appear in Table 3. Variable means are also displayed graphically in Figure 1.



## 5.5 Hypothesis testing

Multiple regression analysis was used in order to determine main effects and interactions of the predictors, and to test the two hypotheses presented above. Four separate regression analyses were conducted, one for each component of trust considered (i.e. perceived ability, benevolence, integrity, and trusting intentions). Contrast coding was used for both predictors (Cohen et al., 2003). Accordingly, ‘company response’ was coded  $-.5$  for apology and  $+.5$  for denial; ‘strength of evidence’ was coded  $-.5$  for weak evidence and  $+.5$  for strong evidence. With contrast coding, each group’s mean is compared with the grand mean. Contrast coding was preferred to standard treatment coding because it facilitates the interpretation of the relative importance of factor levels and of interactions, as the coding system is designed to represent meaningful differences between means of given groups or combinations of groups (Cohen et al., 2003: 358). The variable ‘distrust of corporations’ was treated as a control variable.  $P$  values equal to or lower than .05 were considered statistically significant. The complete results of the regression analyses are presented in Table 4.

Hypothesis 1 predicted that, when evidence of the company’s guilt is weak, denial is more effective than apology in repairing trust in the accused company. The results of the regression analyses provide strong support for this hypothesis. As shown in Table 4, denial had a significant and positive main effect on all the dimensions of trust considered. As the estimate coefficients reported in Table 4 reveal, denial had the strongest positive effect on perceived integrity.

Hypothesis 2 predicted that, when evidence against the company is strong, individuals display more trust in the accused company if the company responded with an apology rather than a denial. This hypothesis is not supported by the data. A significant interaction was found between company response and strength of evidence only for perceived ability and trusting intentions. The negative coefficients of the interaction terms indicate that the difference between apology and denial significantly decreases with strong evidence of the company’s guilt. This is in line with our predictions; denial was

Table 3. Number of observations, means, and standard deviations by condition.

|                 | <i>N</i> | Perceived ability |           | Perceived benevolence |           | Perceived integrity |           | Trusting intentions |           |
|-----------------|----------|-------------------|-----------|-----------------------|-----------|---------------------|-----------|---------------------|-----------|
|                 |          | <i>M</i>          | <i>SD</i> | <i>M</i>              | <i>SD</i> | <i>M</i>            | <i>SD</i> | <i>M</i>            | <i>SD</i> |
| Weak evidence   |          |                   |           |                       |           |                     |           |                     |           |
| Apology         | 71       | 3.19              | 1.10      | 2.91                  | 1.03      | 2.44                | 1.08      | 2.42                | 0.95      |
| Denial          | 70       | 4.06              | 1.01      | 3.22                  | 1.11      | 3.59                | 1.06      | 3.14                | 1.05      |
| Strong evidence |          |                   |           |                       |           |                     |           |                     |           |
| Apology         | 68       | 3.71              | 1.39      | 2.79                  | 1.15      | 2.43                | 1.13      | 2.46                | 0.92      |
| Denial          | 73       | 3.70              | 1.11      | 3.11                  | 1.07      | 3.16                | 1.39      | 2.61                | 1.12      |

Table 4. Results of regression analysis of company response and strength of evidence on perceived ability, benevolence, integrity, and trusting intentions.

| <i>Predictors</i>          | <i>Dependent variables</i> |                |                       |                |                     |                |
|----------------------------|----------------------------|----------------|-----------------------|----------------|---------------------|----------------|
|                            | Perceived ability          |                | Perceived benevolence |                | Perceived integrity |                |
|                            | Parameter estimate         | <i>t</i> value | Parameter estimate    | <i>t</i> value | Parameter estimate  | <i>t</i> value |
| Intercept                  | 3.309*                     | 15.814         | 3.216*                | 16.283         | 2.955*              | 13.859         |
| Company response (denial)  | 0.426*                     | 3.096          | 0.319*                | 2.457          | 0.939*              | 6.683          |
| Strength of evidence       | 0.068                      | 0.497          | -0.102                | -0.790         | -0.218              | -1.552         |
| (strong evidence)          |                            |                |                       |                |                     |                |
| Interaction                | -0.867*                    | -3.146         | 0.003                 | 0.015          | -0.422              | -1.503         |
| Distrust in corporations   | 0.089                      | 1.815          | -0.052                | -1.121         | -0.012              | -0.247         |
| (control)                  |                            |                |                       |                |                     |                |
| $R^2$ (adjusted $R^2$ )    | 0.078 (0.065)              |                | 0.027 (0.013)         |                | 0.150 (0.138)       |                |
| $F$ statistic ( $p$ value) | 5.892*                     |                | 1.976                 |                | 12.26*              |                |
|                            |                            |                |                       |                | 0.096 (0.083)       |                |
|                            |                            |                |                       |                | 7.376 *             |                |

\*  $p < .05$

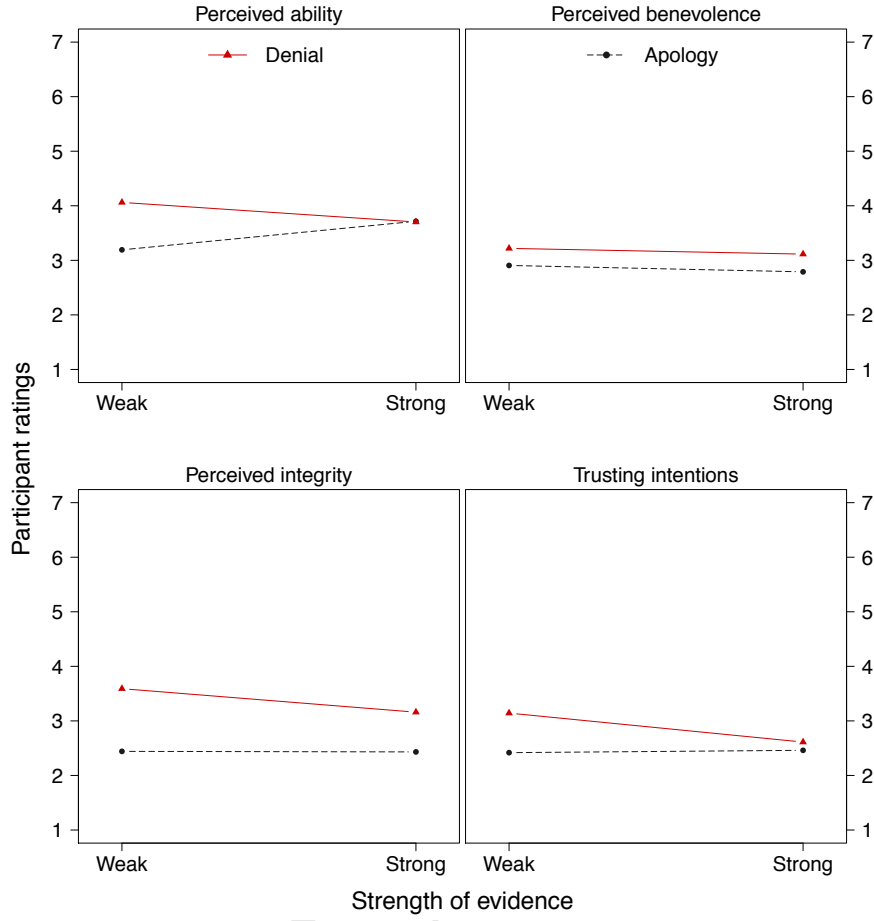


Figure 1: Variable means by experimental condition.

expected to be less effective against strong evidence than against weak evidence of the company's guilt, and, conversely, apology was expected to comparatively more effective in this kind of situation. However, apology does not outperform denial in the strong evidence condition, as originally anticipated. As shown in Table 3, the difference between mean perceived ability scores for apology and denial is negligible in the strong evidence condition, and mean trusting intentions scores are actually higher for denial than for apology. Post-hoc  $t$ -tests revealed that these differences are not significant (perceived ability:  $t(127.98) = 0.058, p = 0.953$ ; willingness to risk,  $t(137.03) = -0.876, p = 0.382$ ).

As far as perceived benevolence and perceived integrity are concerned, no significant interaction was found between company response and strength of evidence. This in-

icates that denial significantly outperformed apology in repairing these dimensions of trust, regardless of the strength of the evidence of the company’s guilt.

Since our sample was not entirely homogenous with respect to the participants’ nationality, we conducted a post-hoc analysis to assess whether this factor had any effect on the results. We fitted a new regression model for each of the dependent variables, adding nationality as a predictor. The variable was coded  $-0.5$  for ‘non-Swedish nationality’ and  $+0.5$  for ‘Swedish nationality’. The results show that nationality did not have a significant effect on any of the dependent variables (Ability:  $\beta = -0.15, p = 0.363$ ; Benevolence:  $\beta = -0.01, p = 0.946$ ; Integrity:  $\beta = -0.301, p = 0.077$ ; Trusting intentions:  $\beta = -0.07, p = 0.630$ ). The  $\beta$  coefficients and  $p$  values for the other predictors remained broadly unchanged. These results indicate that the lack of homogeneity in the sample with respect to the variable nationality did not affect the results.

Finally, it should be noted that the  $R^2$  values were quite low for all models, which suggests that additional factors that were not considered in this study may have influenced the participants’ responses.

## 6 Discussion

This study examined the effects of apology and denial in repairing trust in a company following an integrity-based violation, and sought to determine how the strength of the evidence of the company’s guilt affects individuals’ responses to these strategies. The results demonstrate that, when evidence against the company is weak, trust is restored more successfully with a denial than an apology. The effectiveness of denial was shown to decrease with strong evidence of the company’s guilt. However, contrary to our hypothesis, denial was not found to be less effective than apology in this type of situation. In fact, denial significantly outperformed apology in repairing perceptions of the company’s integrity and benevolence even in the face of strong evidence, and it was as effective as apology in restoring perceived ability and trusting intentions.

The finding that, following an integrity-based trust violation and in the absence of strong evidence of the company’s guilt, denial is more effective than apology is in line with the results of previous experimental work on trust repair in interpersonal relations (Ferrin et al., 2007; Kim et al., 2013, 2004). It indicates that, in this type of situation, individuals respond to companies’ denials and apologies in a similar way to how they respond to these verbal strategies when used by other people. Thus, when confronted with a situation where the trusted parties, people or a companies, deny having deliberately abused their trust for personal gain, trustors generally seem to be inclined to give them the benefit of the doubt. This finding provides some empirical support for the proposition advanced by Poppo and Schepker (2010: 136) that, similar to interpersonal relationships, a denial is more effective than an apology in repairing organizational trust following integrity-based violations. It is also consistent with Bradford and Garrett’s (1995: 880) original hypothesis, which, as presented above, stated that denial is the most effective strategy in restoring a company’s image in cases where no evidence of its guilt is provided.

The greater effectiveness of denial over apology in the absence of strong evidence of guilt can be explained by differences in the way individuals interpret the signals conveyed by these verbal responses in different situations (Ferrin et al., 2007; Kim et al., 2004). As mentioned above, when assessing other people's integrity, trustors tend to give more weight to negative information than to positive information, whereas the opposite holds when other people's ability is under scrutiny (see Snyder and Stukas, 1999). As a consequence, following an integrity-based trust violation, the signal of guilt that an apology conveys (i.e. negative information) overrides the signal of redemption (i.e. positive information) that the strategy also carries. A denial, then, is comparatively more effective in this situation because it seeks to disconfirm guilt, and thus to neutralize negative attributions (Ferrin et al., 2007; Kim et al., 2004). These dynamics have been repeatedly observed in dyadic interpersonal relationships. The results of the present study suggest that the same type of effect also applies to company-stakeholder relations in situations where the company's integrity is at stake.

The results obtained under the strong evidence condition failed to confirm our initial hypothesis and revealed an unanticipated pattern of interaction between company response and strength of evidence. This outcome appears to be at odds not only with our second hypothesis, but also with the results of Kim et al. (2004), who found apology to be more effective than denial when the trust breaker's guilt was later revealed, and of Bradford and Garrett (1995), who observed a similar effect in a scenario where the accusations of corporate wrongdoing were backed by clear evidence.

Several factors may have contributed to this unexpected and apparently counterintuitive result. First of all, the evidence provided may not have been compelling enough to effectively undermine the credibility of the company's denial, and trigger suspicion of deception. Indeed, while evidence of the company's guilt was perceived as strong by the participants ( $M = 4.84$ ,  $S.D. = 1.38$ ), it was not, on average, taken as conclusive, as mean ratings in the region of 6 or above would have indicated. Therefore, the accused company's denial may have retained at least some degree of credibility or legitimacy in the eyes of the respondents. Both Kim et al. (2004) and Bradford and Garrett (1995) are different in this respect; in these studies, the person's or company's guilt was presented as proven.

Another contributing factor may have been the way in which the company's denial was framed in the stimulus material. In the second news article, the company was reported to have "strongly denied" the allegations. The article also presented a statement made by a spokesperson in which s/he dismissed the allegations as "groundless". Such an absolute and confident denial may have been particularly persuasive, or at least persuasive enough for it not to be perceived as overly deceitful. Further, the fact that no justifications or counter-arguments were given possibly limited the participants' ability to reflect on and critically assess the veracity of the message. In other words, there was nothing in the company's message itself that suggested that they were lying, or that the participants could have used as a basis to question their assertion.

The results could partly also be explained by culture-specific trust dispositions. As noted above, the vast majority of the participants were of Swedish nationality. Recent

international surveys have shown that interpersonal trust in Sweden is among the highest in the world (e.g. World Value Survey, 2014<sup>4</sup>). Perhaps more importantly in the present context, Sweden has among the highest levels of citizen trust in the justice system (e.g. European Commission’s “Justice in the EU” report, 2013<sup>5</sup>). These culture-specific dispositions may have influenced the way the respondents reacted to the experimental scenario and to the company’s denial.<sup>6</sup> A large portion of the participants may spontaneously have been inclined to be relatively lenient towards the accused company, possibly based on the belief that justice will ultimately prevail, and therefore the company would not have had a strong incentive to lie because it would be difficult for them to escape punishment. In addition to this, Sweden is one of the least corrupt countries in the world (Uslaner and Badescu, 2004: 32). Accordingly, the allegations of corruption leveled at a Swedish corporation in the stimulus materials may have been difficult to believe for some. Admittedly, these explanations are post-hoc and speculative, but they nonetheless seem plausible given the culture-specific nature of the phenomenon of trust (Saunders et al., 2010).

More work is needed to clarify what factors contributed to the higher-than-expected effectiveness of denial against strong evidence of the company’s guilt. Nonetheless, one clear conclusion can be drawn from the results of this study: denial *can* be a relatively effective organizational trust repair strategy, at least in the case of crises of the type considered here. This finding appears to clash with the results of previous studies in the domain of crisis communication, where, as detailed above, apology has generally been found to outperform denial in restoring a company’s image or reputation. This discrepancy may be explained by considering some important differences between those studies and the present one.

First of all, as discussed above, most of previous empirical studies have focused on accidental crises, rather than deliberate acts of wrongdoing. If we equate the former to ability-based trust violations, the fact that apology was found to outperform denial is in line with well-established research on trust repair in interpersonal relations (Ferrin et al., 2007; Kim et al., 2013, 2004), and therefore does not necessarily contradict the results of our experiment. Our study dealt with an integrity-based violation, for which current models of interpersonal trust repair predict denial to be a comparatively more effective strategy. Further, most of previous work in the domain of crisis communication has investigated constructs such as image or reputation, rather than trust. The type of patterns observed here might, in fact, be specific to trust.

Another important difference lies in the way in which the company response was operationalized in previous crisis communication studies. In many instances, complex multiple strategies, rather than simple apologies and denials, were tested. In one of the apology scenarios used by Lyon and Cameron (2004: 237–238), for instance, the company’s ‘apologetic response’ featured, in addition to the confession of guilt and expression of remorse, an emphatic sympathetic statement by the CEO (“the chemical spill is “like a nightmare to me””), a disclaimer (the company responsible for the spill had built their factory next to a river solely in order to contribute to revitalizing the area), and a statement clarifying that the company did have adequate procedures in place designed

to prevent chemical spills. Similarly, as noted above, the apologetic response used in Bradford and Garrett (1995) also included an offer of compensation to the victims and a justification by the company. The denial message tested in Lee (2005) and in Dardis and Haigh (2009) incorporated blame shifting. It seems plausible, then, to assume that these additional verbal strategies exerted some influence on the participants; the extent to which they contributed to the results is, however, unclear.

Finally, as explained above, in several previous studies, concrete evidence of the company's responsibility for the crisis was given. As the results of this experiment show, strength of evidence plays an important role in determining how people respond to companies' messages. Accordingly, the presence of hard evidence of the company's responsibility in the scenarios used in previous studies may have conditioned participants' judgments.

One important point that needs to be emphasized is that, while the present study demonstrates that denial can be a relatively effective trust repair strategy in the immediate aftermath of an integrity-based trust failure, it does not provide any evidence for the long term effectiveness and viability of this strategy. As noted above, normative studies on organizational trust repair discourage organizations from taking a defensive stance towards accusations of wrongdoing, and advocate for an open and transparent approach instead. Gillespie and Dietz (2009) concede that such an approach might damage an organization's trustworthiness in the short term, but a defensive approach, they argue, is even more detrimental in the long haul because it generates uncertainty about the company's intentions and future conduct. Along similar lines, Gillespie et al. (2014) warn against a short-term focus in dealing with trust failures. Based on an in-depth longitudinal case study, they conclude that an open and cooperative response pays back in the long run, and ultimately facilitates the process of organizational trust repair and reintegration. The present study focuses solely on the short-term effects of apology and denial and therefore does not address the important issue of what the long-term repercussions of these strategies are. Nevertheless, the study contributes to the debate over appropriate organizational trust repair strategies by providing empirical evidence for the 'paradoxical effect' that an open and honest attitude can, in the short term, be more detrimental to organizations than a defensive strategy based on the denial of guilt (Gillespie and Dietz, 2009: 142).

Clearly, the finding that denial can, at least in the short term, function as a relatively effective trust repair strategy raises the critical concern that this strategy could be used by blameworthy companies to effectively evade accountability for their wrongdoing. Organizations often know more than the public about the causes of and responsibilities for a crisis, and may be incentivized to take advantage of this information imbalance in order to avoid the legal and financial consequences of a crisis (Tyler, 1997). The fact that the study focuses on the short-term effects of denial makes the results particularly troubling in this sense because the immediate post-crisis stage is the most public stage of a crisis (Dardis and Haigh, 2009: 101). This means that the company's messages in this phase are likely to have the broadest and deepest impact on stakeholders' opinions. Connected to this, another critical question concerns the possibility that corporations

take advantage of the insights generated through this study to improve their ability to strategically manipulate stakeholders' impressions (cf. Barnett, 2014: 695). In this sense, it is important to stress that our results should not be interpreted as prescriptive guidelines. Our primary goal was to shed new light on the mechanisms of organizational trust repair and on the effects of two fundamental and widely used crisis response strategies in order to provide an empirical basis to critically assess and question organizations' communicative practices. In line with Coombs (2007: 165), our stance is that corporate ethics should always prevail, and that companies should therefore never lie to stakeholders. Yet, the sheer number of corporate fraud cases that have occurred in recent years suggests that companies often do, in fact, disregard ethical considerations and act opportunistically. The results of this study thus bring into sharp relief the need to raise public awareness about the power of language to serve as a tool for persuasion and manipulation (Fairclough, 1995), and call for further research into the conditions that determine the persuasiveness of corporate denial.

## 7 Limitations and future directions

The results of this study should be interpreted in light of several limitations, which, in turn, provide opportunities for future research. First, the sample used was restricted to university students, the majority of which were of Swedish nationality. Additional research is therefore needed to assess the generalizability of our results. Replications of this study should be carried out using samples with different socio-demographic characteristics. More importantly, future studies should include individuals from different geographical areas in order to determine whether and to what extent our results generalize across cultures. As explained above, culture-specific trust dispositions may have significantly influenced the participants' responses. More specifically, two factors that we believe could have played an important role in this regard are generalized interpersonal trust and trust in the justice system, both of which exhibit substantial cross-country variation. More research is warranted, then, to test the effects of these variables and, more generally, to determine what macro-level dispositions affect people's assessment of the trustworthiness of individual organizations. Also, qualitative work involving focus groups, for instance, could throw light upon salient culture-bound aspects that have an impact on micro-level trusting beliefs and intentions. In sum, as noted by Ferrin et al. (2007: 905), the investigation of cross-cultural differences in the way individuals respond to trust violations and subsequent trust repair attempts represents a promising avenue for future research.

Future extensions of this study might also investigate and compare the responses of different stakeholder groups. Pirson and Malhotra (2011) have shown that different stakeholders hold different expectations about the trustworthiness of organizations. In light of this, it seems reasonable to expect that individuals belonging to different categories of stakeholders will react differently to a company's trust failures and trust repair messages. The present study has only focused on the general public as a stakeholder group. Future inquiry could involve additional groups, such as the company's employees.



Given the special emphasis employees place on organizational transparency and benevolence (Pirson and Malhotra, 2011), apologetic responses might exert a more positive effect on them compared to our respondents.

Another limitation of this study is that it only tested the effects of one specific type of denial strategy, which we may term absolute or ‘blanket denial’. As discussed above, it seems reasonable to assume that the way in which the denial is delivered may affect the way individuals react to it. While previous work has investigated the comparative effectiveness of different formulations of an apology (Fehr and Gelfand, 2010; Hill and Boyd, 2015), no empirical studies, as far as we know, have examined the effects of different denial strategies. To address this question, future work could, for instance, use Moston and Stephenson’s (2009) typology of denial strategies or similar taxonomies as a basis for developing experiments designed to assess the relative persuasiveness of a range of different types of denial. The form of denial used in the present experiment could be set against alternative and widely used denial strategies, including, for example, denial of offense—‘our actions did not violate any of the foreign country’s law’—and denial of interpretation—‘the executive caught on hidden cameras was not offering a bribe to the Indian official, but only handing him a document’ (Moston and Stephenson, 2009). The level of assertiveness with which the denial is delivered could also be manipulated. Highly assertive statements serve to limit opportunities for dialogue and questioning, whereas tentative claims have the opposite effect of opening up space for discussion (Fuoli and Paradis, 2014). It would thus be worthwhile to compare the effects of assertive and tentative denials to determine whether the confidence expressed by the statement has an effect on its perceived credibility.

As discussed above, evidence of the company’s guilt was perceived by the participants in this study as strong, but not as unequivocal. This leaves the question open as to where the ‘tipping point’ for the credibility of companies’ denial is. In other words, how strong should the evidence against the company be for their denial to be completely ineffective and to raise, rather than ease, people’s skepticism? To address this question, future studies could incorporate a ‘conclusive evidence’ condition, in order to compare the effects of the company’s denial *vis-à-vis* a broader range of scenarios involving different degrees of strength of evidence.

Further, our study considered one specific type of integrity-based violation only, namely a case of suspected international corruption. Further research is needed to confirm that the results we obtained apply to all forms of integrity-based organizational trust failure. Future inquiry should thus consider additional scenarios involving different types of integrity-based violations, and also comparisons of integrity-based and ability-based violations so as to ascertain whether the findings of interpersonal trust repair studies are indeed compatible with trust violation and repair dynamics in organization–stakeholder relationships, as our results seem to suggest. This would also allow us to determine the validity of our explanation for the greater effectiveness of apologies reported in numerous crisis communication studies.

One additional limitation that should be noted is that this study focuses solely on the short-term effects of apology and denial on organizational trust. Future work should

further investigate the long-term consequences and implications for these strategies.

Finally, the relatively low  $R^2$  values for all the regression models suggest that more factors than those considered in this study might play an important role in determining people's trust in organizations. One variable that warrants further consideration, we believe, is trust in the news media. In recent years, news organizations have suffered a significant loss of public trust, due to, among other things, declining reporting standards triggered by commercial pressures and by the increasingly competitive media environment, and widely-publicized scandals such as the one involving the now defunct tabloid News of the World (Fisher, 2016). In light of this, one of the reasons why denial was relatively effective might have been that the participants were unsure whether to blame the accused company because they did not fully trust the news story they read. Future studies could therefore examine how individual beliefs about the credibility of the news source affect their trust in the company accused of wrongdoing.

In sum, much remains to be discovered about organizational trust repair. We hope that this study will encourage more research in this important area.

## Acknowledgments

The majority of this work was conducted while M. Fuoli was at Lund University. The authors would like to thank the participants as well as a number of instructors at the School of Economics and Management of Lund University for their kind help in recruiting volunteers for the study. We are grateful to the Olof Sager Foundation for sponsoring the prize draw. Finally, we would like to thank the reviewers for their constructive and very useful comments on earlier versions of the article.

## Notes

<sup>1</sup>Throughout the paper, the terms ability and competence are treated as synonyms and used interchangeably. Mayer et al. (1995) favor the term ability, whereas Kim and Harmon (2014) use the term competence. The way the terms are operationalized, however, is similar.

<sup>2</sup>Numerous different definitions of apology have been proposed in the literature. For a review, see Pace et al. (2010).

<sup>3</sup>For an overview of the difference between the concepts of image and reputation, the reader is referred to Barnett et al. (2006).

<sup>4</sup>Available at: <http://www.worldvaluessurvey.org/WVSDocumentationWV6.jsp> [last accessed: 9 December 2016]

<sup>5</sup>Available at: [http://ec.europa.eu/public\\_opinion/flash/fl\\_385\\_en.pdf](http://ec.europa.eu/public_opinion/flash/fl_385_en.pdf) [last accessed: 9 December 2016]

<sup>6</sup>The fact that no significant differences were found between the Swedish and non-Swedish sub-samples does not represent reliable counter-evidence to this hypothesis because (i) this study was not originally designed to assess cross-cultural differences and thus the variable 'culture' was not adequately operationalized, and (ii) the non-Swedish sub-sample is much smaller than the Swedish one and accounts for over 30 different nationalities. Therefore, it cannot be taken as a representative sample of any nationality or culture. Our post-hoc suggestion that culture-specific trust dispositions may have influenced the results is based on more reliable secondary sources

such as the 2014 World Value Survey and the 2013 Justice in the EU report by the European Commission.

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## Appendix: Multi-item scales and manipulation checks

Perceived ability (from 1 [*strongly disagree*] to 7 [*strongly agree*])

Renergi seems very capable of running a successful business.

I feel very confident about Renergi skills.

I see no reason to doubt Renergis competence.

Perceived benevolence (from 1 [*strongly disagree*] to 7 [*strongly agree*])

Renergi seems very concerned about the welfare of people like me.

The needs and desires of people like me seem to be very important to Renergi.

Renergi seems to be interested in the well-being of people like me, not just themselves.

Perceived integrity (from 1 [*strongly disagree*] to 7 [*strongly agree*])

I like Renergi ethical values.

Strict moral principles seem to guide Renergis behavior.

Renergi seems to have a great deal of moral integrity.

Trusting intentions (from 1 [*strongly disagree*] to 7 [*strongly agree*])

Authorities should keep an eye on Renergi.\*

Stricter controls should be introduced to ensure that Renergi does not violate any laws.\*

Renergi should be allowed to operate without any direct supervision by the authorities.

Distrust in multinational corporations (from 1 [*strongly disagree*] to 7 [*strongly agree*])

Multinational corporations do not care about acting ethically.

People who run multinational corporations will lie if doing so will increase company profits.

Multinational corporations do not take responsibility for their actions.

Multinational corporations will break laws if they can make more money from it.

Manipulation checks (from 1 [*strongly disagree*] to 7 [*strongly agree*])

The evidence against Renergi is very strong.

Renergi has admitted to having bribed public officials to win contracts abroad.

The articles are realistic.

An asterisk indicates reverse-scored items.

## Supplementary materials: Experimental stimuli

Friday, February 12, 2016 ■ News from the World

# Swedish energy giant Renergi suspected of bribery and corruption

**By SHIRLEY MORELL**  
Staff writer

STOCKHOLM - According to Swedish media reports, several Renergi executives are suspected of bribery. Prosecutors allege that Renergi's executives paid over 50 million dollars in bribes to public officials to secure lucrative contracts in both European and non European countries.

It is believed that the executives accused of paying bribes were following company instructions rather than acting on their own.

The head of the prosecution team, Towe Petersson, has stated that there is "very strong evidence" against Renergi,



**RENERGI executive allegedly offering a bribe to an Indian government official to win a 75 million dollar contract to build a new giant solar power plant near New Delhi.**

including hidden-camera footage that allegedly shows an Indian government official accepting a bribe from a

Renergi executive (see picture).

The company has yet to publicly respond to these accusations.

Text 1: Strong evidence condition



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It is believed that the executives accused of paying bribes were following company instructions rather than acting on their own.

The head of the prosecution team, Towe Petersson, has emphasized that "the investigation is still in its early stages and



GIANT solar power plant built by Renergi near New Delhi, India. The power plant is one of several Renergi projects under investigation for alleged bribery.

no arrests have been made at this time". All the alleged recipients of the bribes have categorically denied receiving any money from

Renergi.

The company has yet to publicly respond to these accusations.

Text 1: Weak evidence condition

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## Renergi admits to and apologizes for paying bribes to foreign officials

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By DORI HAYMOND

STOCKHOLM - In an official statement released today, Renergi has admitted to bribing foreign officials to secure lucrative business deals.

Swedish prosecutors had presented very strong evidence against the company, including video footage of alleged bribery payments.

"We are really sorry for what has happened", a company spokesperson said, adding that the company is committed to taking whatever action is required to ensure that this situation never arises again.

*Continued on Page 5*

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Text 2: Strong evidence + apology condition

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## Renergi denies paying bribes to foreign officials

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**By DORI HAYMOND**

STOCKHOLM - In an official statement released today, Renergi has strongly denied allegations of bribing foreign officials to secure lucrative business deals, despite very strong evidence against the company including video footage of alleged bribery payments.

"The facts will show that these allegations are groundless", a company spokesperson said, adding that Renergi has always adopted a zero-tolerance policy towards all forms of corruption.

*Continued on Page 5*

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Text 2: Strong evidence + denial condition

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## Renergi admits to and apologizes for paying bribes to foreign officials

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By DORI HAYMOND

STOCKHOLM - In an official statement released today, Renergi has admitted to bribing foreign officials to secure lucrative business deals.

Renergi's admission is unexpected. Authorities have not provided any concrete evidence of Renergi's culpability so far, and are still investigating the case.

"We are really sorry for what has happened", a company spokesperson said, adding that the company is committed to taking whatever action is required to ensure that this situation never arises again.

*Continued on Page 5*

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Text 2: Weak evidence + apology condition

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Text 2: Weak evidence + denial condition